

Message Text

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ACTION EUR-12

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R 311541Z AUG 78

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TO SECSTATE WASHDC 7085

INFO AMEMBASSY ANKARA

AMEMBASSY THENSS

AMEMBASSY BERN

AMEMBASSY CANBERRA

AMEMBASSY HELSNINKI

AMEMBASSY LISBON

AMEMBASSY MARDID

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY REYKJAVIK

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

AMEMBASSY VIENNA

AMEMBASSY WELLINGTON

EC COLLECTIVE

UNCLAS SECTION 1 OF 2 COPENHAGEN 5656

USEEC ALSO FOR EMBASSY

EO 11652: N/A

TAGS: EGEN, DA

SUBJ: COALITION GOVT'S ECONOMIC POLICY PLATFORM

REF: COPENHAGEN 5623

SUMMARY: THE NEW COLATTION GOVT'S ECONOMIC POLICY IS PRIMARILY BAL-
ANCE-OF-PAYMENTS ORIENTED. BUDGETARY CUTS, INCREASED TAXES, PRICE AND
(INDIRECTLY) WAGE FREEZES AND CONTINUED INCOMES RESTRAINSTS ARE MEAS-
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URES TO MODERATE THE RISING FISCAL DEFICIT AND PRESERVE THE REGIS-
TERED REDUCTION IN THE BOP DEFICIT. END SUMMARY.

1. THE OFFICIAL POLICY PLATFORM OF THE NEW DAN COALITATION GOVT
COMPRIISING SOCIAL DEM AND LIBERALS WILL BE PRESENTED TO AN EX-
TRAORDINARY SESSION OF THE FOLKETING AUG 31. HOWEVER, AT A PRESS CONF
AUG
30 PRIME MIN ANKER JORGENSEN AND LIBERAL CHIEF NEGOTIATOR, NOW FOR

MIN HENNING CHRISTOFFERSEN, PRESENTED A 20 POINT OUTLINE OF THE POLITICAL AGREEMENT BETWEEN THE COALITION PARTNERS, ALMOST ENTIRELY CONCERNING ECONOMIC POLICY.

2. JORGENSEN SAID THAT DESPITE THE DIFFERENT IDEOLOGICAL BACKGROUNDS OF THE COALITION PARTIES, THEY HAD COOPERATED ON ALL MAJOR ECONOMIC PROGRAMS OVER THE PAST YEARS. THE COALITION WAS REGARDED AS THE MEANS TO PROVIDE POLITICAL STABILITY AND AN ECONOMIC STABILITY & EQUILIBRIUM WHICH COULD EVENTUALLY HELP PRODUCTION & EMPLOYMENT. THE IMMEDIATE CONDITION FOR THIS WOULD BE IMPROVEMENTS IN THE BALANCE OF PAYMENTS.

3. WITHOUT SOME RESTRICTIVE MEASURES, THE DEFICIT ON THE BOP CURRENT ACCOUNT WOULD LIKELY REVERT TO A 9-10 BILLION KR LEVEL IN 79 (AFTER AN EXPECTED REDUCTION BY ABOUT ONE-THIRD IN 78). THE GOVERNMENT WOULD AIM AT A CONTINUED REDUCTION OF THE DEFICIT TO 6-7 BILLION IN 79 AND LESS IN THE YEARS FOLLOWING. AN IMMEDIATE MEASURE WOULD BE SOME REDUCTION IN THE LARGE & GROWING BUDGETARY DEFICIT, PROVIDED BOTH BY REDUCED OUTLAYS AND HIGHER TAXES.

4. TAX MEASURES INCLUDE AN INCREASE IN THE VALUE-ADDED TAX (VAT) FROM 18 PERCENT TO 29 PERCENT & MODIFICATION OF SCHEDULED EASING OF INCOME TAXES IN 1979 (INDEXATION OF TAX FLOORS AND PROGRESSION RATES WILL BE CHANGED FROM THE PRESENT WAGE-INDEX BASE TO PRICE-INDEX BASE WHICH WILL PROVIDE SLOWER ESCALATION). BUDGETARY SAVINGS REPORTEDLY WILL HIT PRIMARILY THE INVESTMENT BUDGET AS SOME MAJOR COST-DEMANDING PROJECTS, INCLUDING THE STOREBELT BRIDGE, WILL BE CURTAILED OR POSTPONED. FINANCE MIN KNUD HEINESSEN, WHO CONTINUES IN THIS OFFICE IN THE NEW CABINET, SAID THAT THESE MEASURES

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WOULD REDUCE THE FY 79 BUDGET DEFICIT BY SOME 4 BILLION KR (THE FY 79 BUDGET WAS RECENTLY SUBMITTED WITH A DEFICIT OF 15 BILLION ON OPERATIONS BUT WITH A TOTAL FINANCIAL REQUIREMENT, INCLUDING CAPITAL OUTLAYS & DEPT REFINANCING, OF 41 BILLION KR).

5. JORGENSEN SAID THAT WHILE SOME MODERATION HAD BEEN REGISTERED IN WAGE RISES, A FURTHER REDUCTION OF THE PACE WOULD BE REQUIRED. THE GOVT WOULD CALL TRIPARTITE NEGOTIATIONS WITH LABOR AND MANAGEMENT PRIOR TO BARGAINING ON NEW LABOR CONTRACTS FOR THE 79-81 PERIOD. AS AN IMMEDIATE CHECK ON COST DEVELOPMENTS, EXTENDED PRICE CONTROLS WOULD PROHIBIT PRICE RISES OTHER THAN THOSE BASED ON IMPORT PRICES & EXISTING CONTRACTUAL WAGE ADJUSTMENTS. HOME RENTS WOULD BE PERMITTED TO RISE ONLY IN PACE WITH WAGES. THE DESIRED WAGE MODERATION SHOULD NOT LEAD TO A DECLINE IN REAL WAGES.

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6. THE GOVT DID NOT OFFER ANY IMMEDIATE CONCESSION TO LABOR DEMANDS
FOR STRICTER TAXATION OF CAPITAL GAINS BUT PLEDGED CONSIDERA-
TION OF THIS PROBLEM NEXT SPRING IF & AND WHEN THE DESIRED WAGE
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MODERATION MATERIALIZED. INDICATIONS ARE THAT THE PRESENT, RATHER
HEAVY TAXATION OF CAPITAL GAINS ON NON-RESIDENTIAL REAL PROPERTY
MAY BE
REPLACED BY TAXATION OF ALL REAL PROPERTY GAINS WHEN THEY EXCEED
"NORMAL" INFLATIONARY GAINS.
7. ANOTHER LABOR DEMAND, FOR WORKER CO-OWNERSHIP (ECONOMIC DEMOCRACY)
AS COMPENSATION FOR WAGE MODDERATION WAS ALSO SHELVED, PENDING
FURTHER COMMISSION SCRUTINY & REPORTING.

8. IN SUPPORT OF EXPORTING INDUSTRIES, THE GOVT WILL PROVIDE INCREASED FUNDING FOR GOVT-HEDGED EXPORT CREDITS. PRESENT TAX-OFFSETS ON INVESTMENTS, SCHEDULED TO EXPIRE THIS YEAR, REPORTEDLY WILL BE CONTINUED. THE PUBLIC EMPLOYMENT PROGRAM

ADOPTED LAST YEAR WILL BE MAINTAINED WITH UNCHANGED APPROPRIATIONS.

9. IT IS GENERALLY INDICATED THAT THE COALITION WILL NOT ENGAGE IN ANY MAJOR REFORM POLICIES. THE SOCIAL DEMOCRATS' MUCH DEBATED INCOME TAX REFORM VANISHED (WITH FORMER TAX MIN KAMPMANN WHO MIDWIFED THE BILL), LEAVING ONLY A VAGUE REF TO EVENTUAL LIMITATIONS ON TAX EXEMPTIONS FOR NON-BUSINESS INTEREST PAYMENTS. ALSO THE PLANNED HOUSING SUBSIDY REFORM DISAPPEARED. LIBERALS AGREED TO CONTINUATION OF PRESENT SUBSIDIES WITH SLIGHT SOFTENING OF TERMS BUT ONLY FOR ABOUT 7,000 HOME UNITS PER ANNUM INSTEAD OF THE 9,000 UNITS WANTED BY SOCIAL DEMOCRATS.

10. SEVERAL PRACTICAL LEGISLATIVE REVISIONS WERE ANNOUNCED, HOWEVER. TAX SHARING WITH LOCAL GOVTS WILL BE REVISED TO BETTER ACCOMMODATE SOCIAL CONDITIONS IN LARGER URBAN AREAS; IMPROVEMENTS IN LABOR EXCHANGES ARE PLANNED; AND THE UNEMPLOYMENT INSURANCE SYSTEM WILL BE SCRUTINIZED TO PREVENT ABUSE OF BENEFITS.

11. IN THE ENERGY FIELD, THE NEW GOVT MAINTAINS NUCLEAR ENERGY ON THE PROGRAM AS A POTENTIAL ENERGY SOURCE BUT STATES THAT IT WILL PROBABLY TAKE ANOTHER TWO YEARS TO SETTLE ATOMIC WASTE PROBLEMS.
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(POWER INDUSTRY INTERPRETATION IS THAT THIS WILL PUSH AN EVENTUAL NUCLEAR POWER PRODUCTION WELL INTO THE 1990S). THE GOVT WILL GO AHEAD, HOWEVER, WITH THE NATURAL GAS PIPELINE PROJECT IN THE MODIFIED FORM AS PRESENTED LAST MAY.

12. FINALLY, PRIME MIN JORGENSEN CONCLUDED HIS PRESS CONF WITH THE STATEMENT THAT THE COALITION PARTNERS AGREED THAT THERE WOULD BE NO CHANGES IN DENMARK'S FOREIGN, SECURITY, OR EUROPEAN MARKET POLICIES.
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